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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 000544

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SUBJECT: GSL CONTINUES TO PUSH US-SL FTA, DESPITE POLITICAL UNCERTAINTY

REF: A) COLOMBO 490, B) COLOMBO 493

Classified By: Classified by Ambassador Jeffrey J. Lunstead.
Reasons 1. 5 b, d and e.

¶1. (C) Summary: Despite its caretaker status and the political uncertainty surrounding next week's elections, the government of Prime Minister Ranil Wickremesinghe continues to prepare for a US-Sri Lanka FTA. Since Cancun, Sri Lanka has supported US positions in WTO fora and on regional initiatives, such as the South Asia Free Trade Agreement. It is also honoring commitments made during the last round of TIFA talks, including accession to the WTO Information Technology Agreement and sponsoring a trip by garment industry reps to meet yarn and textile manufacturers in the US. Sri Lanka continues to pursue expanded bilateral trade opportunities with other countries, and has recently received preferential duty treatment for products entering EU markets as a result of high labor standards. While the USG needs to assess the makeup of the next government before taking its next steps on the trade front, if the PM's party wins, we should consider announcing FTA negotiations sooner rather than later, in order to both advance the economic interests of the US and Sri Lanka and to show our political support for the PM's policies. Should the UFPA win, we would need to consider both the interest and capability of the new government to proceed with negotiations and whether pursuit of an FTA would enhance US influence over the new regime's trade and economic policies. End Summary.

¶2. (SBU) Even with elections slated for April 2 and with the economy looming as a significant election issue (Ref A), improved trade with the US remains a key focus of the PM's caretaker government. Meanwhile, we have heard from different elements within the President's SLFP party that an FTA with the US would be a key goal of a UFPA (an alliance of the President's SLFP and the Marxist JVP) government, if elected, but they have made no public statements about it to date. While the PM views an FTA as another tool in his economic reform toolkit, along with export diversification and fiscal reform for example, the UFPA's position is more of a mystery, though they would likely see an FTA as a "lifeline" in the immediate post-Multifiber Agreement (MFA) expiration period. Both the business and labor sectors in Sri Lanka, including representatives of the SLFP labor organizations, favor an FTA, and would support moving to negotiations.

¶3. (SBU) The current GSL has remained focused on its overall trade goals, despite its caretaker status since the announcement of elections on February 7. In the WTO, the GSL continues to support US positions. In the last few weeks, we have requested and received GSL support on issues including food aid restrictions and inclusion of Doha Development Agenda (DDA) items at the upcoming UNCTAD meeting (Ref B). The Trade Minister continues to vocally support globalization, the need for progress in the Doha Round and the benefits of increased economic reforms and enhanced market access. Moreover, Trade Ministry Director General K.J. Weerasinghe recently told Econoff that Sri Lanka will apply to be an observer to the WTO's Government Procurement Agreement (one of the contentious Singapore issues), with a view to becoming a member.

¶4. (SBU) On the FTA front, we continue to see a willingness on the part of the GSL to pursue ideas raised during the last round of TIFA talks. The GSL is now finalizing its proposal for accession to the WTO's Information Technology Agreement, an action item from our last TIFA meetings in October 2003. All the work on the Agreement itself is finished, and Annexes A and B are being finalized. The GSL is deciding on the timing to reduce tariffs. All but 10-20 items will go to zero immediately. Some items need a longer period to cushion the industry transition or because of revenue considerations. The Finance Ministry is due to make those decisions this week. After they are compiled, a Cabinet Subcommittee must approve the proposal. Trade Secretary Harsha Wickramasinghe told Econoff he thought the process would be completed in late April.

15. (SBU) In response to USTR Chief Textile Negotiator David Spooner's suggestions of a trade delegation visit to the Carolinas and Georgia, the GSL is working with Sri Lanka's Joint Apparel Association Forum (JAAF) to arrange a trip in late April. This visit will highlight to US yarn and textile manufacturers Sri Lanka's textile needs and open a dialogue on the possibilities for partnerships and improved trade relationships. (Note: Sri Lanka currently imports over 80 percent of its textile requirements for the garment sector. Further, certain Indian textiles, which are popular with Sri Lanka's garment sector, include US fiber content. End note.)

16. (SBU) On the regional and bilateral trade fronts, the GSL continues its wide-ranging pursuit of liberalized trade mechanisms with its neighbors and main suppliers and markets. Secretary Wickramasinghe recently mentioned that he saw

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BIMSTEC (an economic cooperation agreement between Bangladesh, India, Burma, Sri Lanka, and Thailand) as an important bridge between SAARC and ASEAN, and as a tool to open up Burma's trade regime. While the GSL sees a need to pursue these bilateral and regional agreements, it strongly supports a move toward multilateral agreement in the WTO. DG Weerasinghe has bemoaned the multiplicity of bi- and multi-lateral trade regimes, and noted the need for convergence.

17. (U) Sri Lanka has also benefited on the trade front from its high labor standards. As of February 1, Sri Lanka received additional tariff concessions on all exports to the EU, as a result of a December 29, 2003 EU Commission decision that Sri Lanka had domestic legislation that met the obligations of the applicable ILO conventions, and was applying and monitoring implementation of that legislation. The concessions approved were: items with a tariff at or below 8.5% would see tariffs reduced to zero. Items with tariff rates above 8.5% would see an 8.5 percentage point reduction. Garment tariffs would be reduced 20%. The regulations will be in effect until the end of 2004, when Sri Lanka hopes the concession will be renewed.

18. (C) Comment: The results of the April 2 election will have a direct effect on progress toward a US-Sri Lanka FTA (assuming that the US decides to proceed). If the PM prevails we can expect quick attention to the FTA and we may wish to buttress this with a public announcement stating our intention in moving forward expeditiously. If the President's UPFA wins it will take some time for us to sort out where an FTA with us is on their list of priorities. If it becomes clear an UPFA government is interested, we could consider strategy (perhaps including a U.S. public announcement) at that point. Should they appear willing and able to pursue an FTA on terms akin to US expectations, we should also consider how an early announcement could provide leverage for US efforts to extract additional trade liberalization, economic reform and WTO cooperation from the new administration. End comment.

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